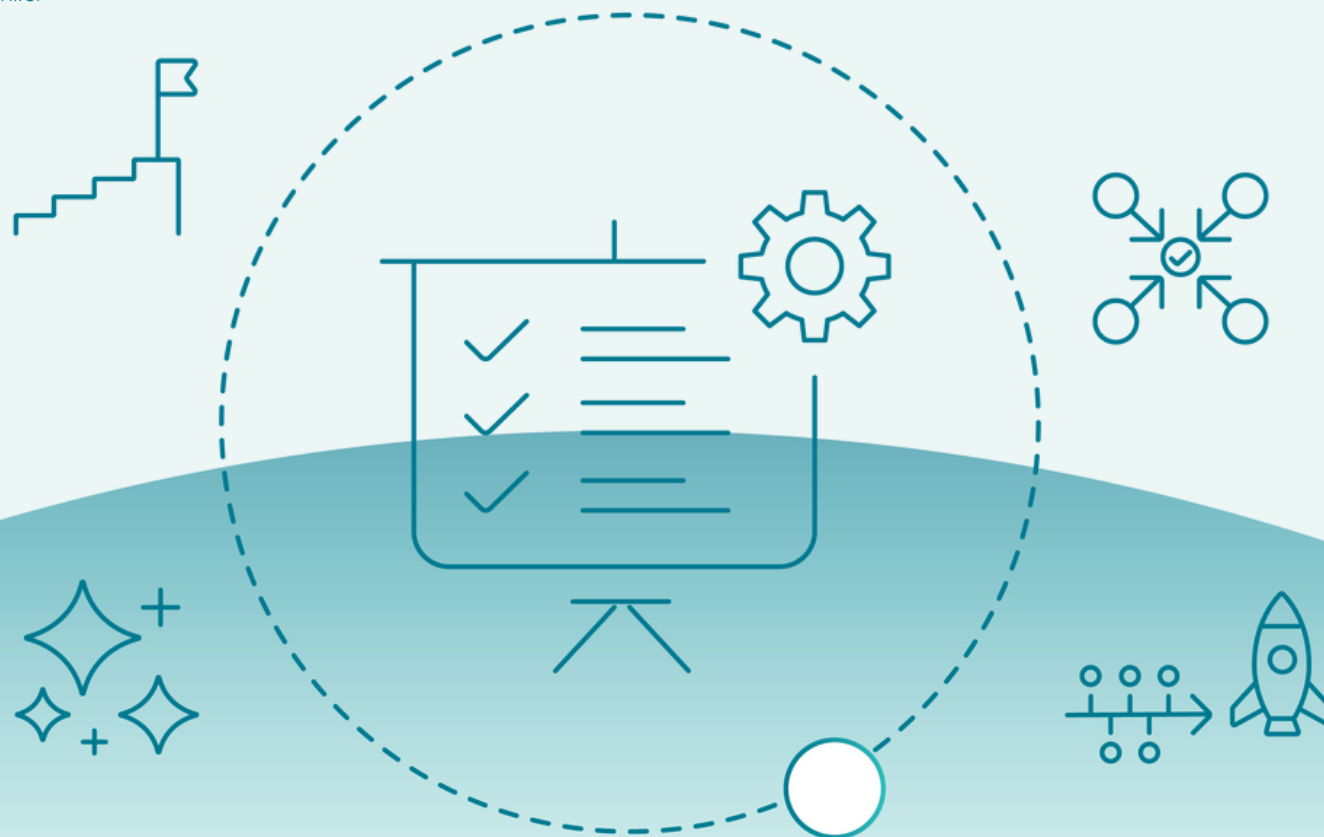




Control the Contract, Control the Cost

A Procurement Leader's Guide to Eliminating Hidden Risks in Fleet Leasing Contracts

Introduction

Outsourcing non-core business functions is standard practice in large organisations, and fleet management is no exception. Many businesses turn to leasing providers in pursuit of cost savings, efficiency, and streamlined operations.

But while outsourcing may appear straightforward, it often introduces hidden complexities. One of the most overlooked is the knowledge imbalance that occurs when internal expertise is replaced with supplier control. Once the supplier holds the technical and commercial knowledge, the balance of power shifts - and that shift can quietly erode value over time.

Nowhere is this more evident than in the leasing contract. These agreements often go beyond simple headline rates. They include

- bolt-on services
- margin assumptions
- opaque pricing mechanisms

For most procurement teams, understanding the true total cost of a fleet contract goes far beyond comparing monthly rental rates.

This guide explores the most common contractual "trapdoors" that suppliers use to increase margin over time, and outlines practical steps procurement leaders can take to identify, manage, and ultimately eliminate these hidden risks.



When you control the contract, you control the outcome

“Once the supplier holds the technical and commercial knowledge, the balance of power shifts - and that shift can quietly erode value over time.”

More Volume, More Value? Not Always

Procurement strategies often favour centralisation:

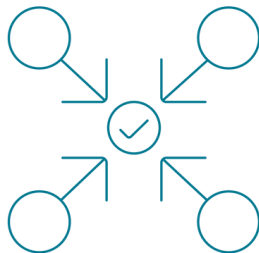
- Consolidate vehicle volumes
- Leverage supplier competition
- Negotiate stronger headline terms

This works well for commodity purchases. But fleet leasing isn't a commodity.

Fleet agreements are complex. Leasing companies know how to make short-term savings look attractive while planning to recover margin over the contract term.

Why Headline Pricing Is Misleading:

- Based on a snapshot in time
- Applies to a specific vehicle spec
- Often influenced by signing incentives or volume-based promises



These initial offers:

- Are difficult to replicate over time
- Rarely reflect evolving fleet needs
- May be subsidised and recouped later

The Real Risk:

- What looks like a saving today can become a hidden cost tomorrow. As volumes shift or the fleet evolves, the original pricing often changes — upward.

What to Watch For:

- Backend margin recovery mechanisms
- Contract resets that increase rates mid-term
- Incentives that mask long-term cost exposures

Generate True Value

"True value in fleet sourcing doesn't come from chasing headline rates. It comes from understanding how leasing providers recover margin."

Procurement leaders need more than sharp pricing. They need contract structures that anticipate change, expose hidden charges, and protect long-term value.

A Snapshot In Time

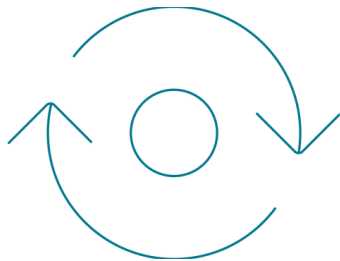
Once a supplier is appointed, the real-world pricing quickly starts to diverge:

- Fleet requirements evolve
- Vehicle specifications shift
- OEM pricing and incentives fluctuate

What begins as a highly competitive rate can soon drift, and not in your favour.

Common Pitfalls:

- Price increases as soon as volume commitments fall short
- Incentive clawbacks through backend contract terms
- RV resets as vehicles come off-fleet or contract parameters change



The Supplier's Advantage:

Suppliers know how to structure a front-loaded offer and recover their margin later. Without contract controls and data monitoring, these shifts can go unnoticed until costs rise.

Managing Tomorrow

Procurement success isn't about locking in today's price, it's about managing tomorrow's risk.

Recommended Actions:

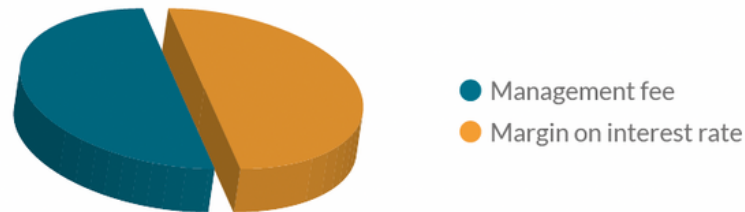
- Treat snapshot pricing as indicative, not definitive
- Establish clear controls for mid-term pricing changes
- Implement ongoing audits against base rate assumptions and applied margins

Understanding The Trapdoors

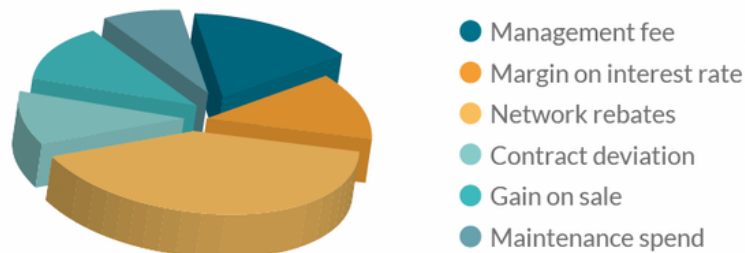
Leasing providers build revenue across multiple streams — not just the management fee or interest margin. Focusing only on these visible costs gives a false sense of control.

Understanding how these streams operate, and how suppliers use them to protect or increase their margin, is essential to managing total cost of ownership (TCO).

Assumed Revenue Model



Actual Revenue Model



Six Common Cost Levers (“Trapdoors”):

Management Fee

The most visible and often-negotiated fee, but usually only a small portion of the provider’s revenue.

Interest Margin

New contracts can attract new margins without client knowledge.

Network Rebates

Surpluses from repair, maintenance, tyres and more are often retained by the supplier.

Contract Deviation

Vehicle usage outside contracted parameters opens the door to repricing and resets.

Gain on Sale

When vehicles are returned and sold above residual value, profits may not be shared with the client.

Maintenance Spend

Budgets are often padded with conservative estimates, creating surplus margin.

These hidden revenue streams account for up to 70% of the lessor’s income.”

What You Can Do:

- Map out all cost levers during the sourcing process
- Challenge the assumptions behind rebates, maintenance and early termination terms
- Build mechanisms to track, report and control hidden margin streams throughout the contract lifecycle

Managing The Trapdoors

Identifying hidden cost levers is only the first step. The real value comes from managing them proactively throughout the life of the contract.

Why It Happens:

Even well-negotiated contracts are vulnerable to cost creep:

- Pricing assumptions are rarely audited post-tender
- Suppliers gradually shift margin to less-visible areas
- Clients lack the tools or time to track the changes

Common Patterns of Cost Creep:

- Rising costs on maintenance and consumables
- Higher-than-expected charges from contract deviations
- Unseen gains on vehicle resale not returned to the client

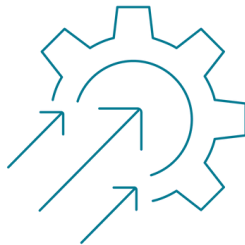
A Better Way:

To avoid margin erosion, fleet procurement leaders should implement:

- Transparent Reporting – Ongoing visibility of actual vs. expected cost
- Data-Driven Audits – Regular checks on interest margins, rebates, and pricing resets
- Defined Adjustment Mechanisms – Clear rules around contract changes and gain-share agreements

Passive Cost Inflation

Proactive contract management is the only defence against passive cost inflation.



Control isn't about being restrictive – it's about being informed and proactive.

The Cost Creep Curve

Even the most competitive fleet contracts are vulnerable to margin slippage over time.

Without active monitoring and clear contractual controls, the risk of Total Cost of Ownership (TCO) creep becomes inevitable.

Understanding how these streams operate, and how suppliers use them to protect or increase their margin, is essential to managing total cost of ownership (TCO).

Total Cost of Ownership

The TCO Trajectory Without Control:

- Year 1: Tender savings are visible and celebrated
- Years 2–3: Supplier begins to apply margin across services and consumables
- Years 4–5: Value erosion becomes embedded; original savings are lost

With Proactive Management:

- Sustained savings through forensic cost tracking
- Incremental improvements driven by data-led contract oversight
- No surprises at renewal or during supplier audits

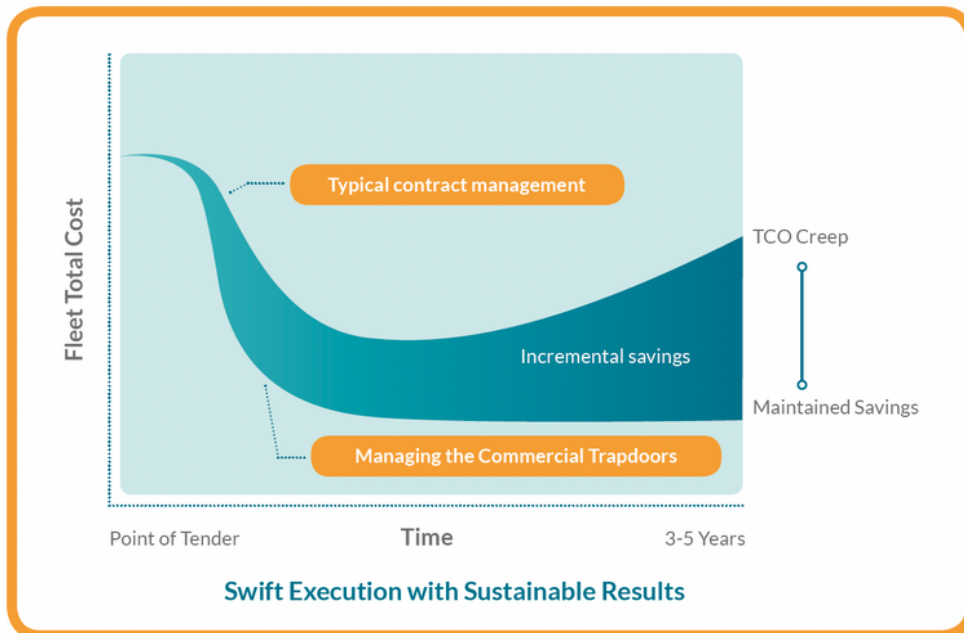
Savings at the point of tender mean little if value leaks throughout the term.

Control The Controllables

Fleet contracts don't just need to be well-sourced — they need to be actively managed, every step of the way.

Visualising the Difference:

- Contracts left unchecked follow an upward cost curve
- Contracts actively managed hold cost flat or reduce over time



#1 Management Fee

The management fee is the most visible part of a leasing contract: a fixed, per-vehicle cost that's easy to benchmark and negotiate.

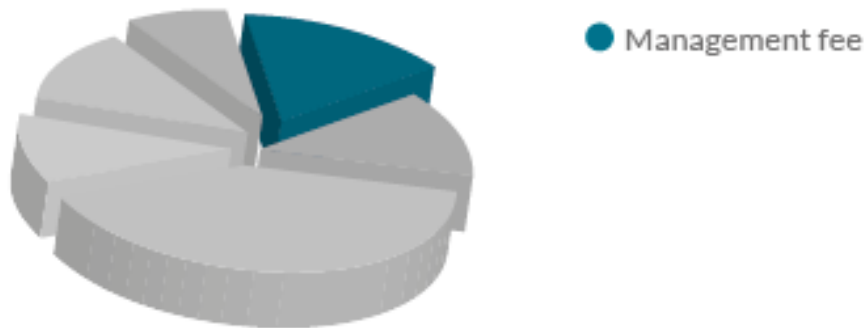
But it's also deceptive in its simplicity.

What It Is:

- A declared amount added to each lease to cover admin and support
- Typically agreed during tender negotiations

Why It's Misleading:

- Often accounts for just 10–20% of the supplier's total revenue
- Gives a false sense of transparency and control



Risks:

Over-focusing on the management fee can:

- Distract from hidden profit centres elsewhere in the contract
- Lead to underestimating the true margin built into the agreement

Interventions:

- Treat the management fee as a starting point, not the whole story
- Always interrogate the full revenue model
- Ensure commercial focus continues well beyond tender day

Tip of the Iceberg

Most clients assume the management fee is where profit lives. In reality, it's often just the tip of the iceberg.

Don't mistake visibility for control, especially when only a fraction of the contract is truly transparent.

#2 Interest Margin

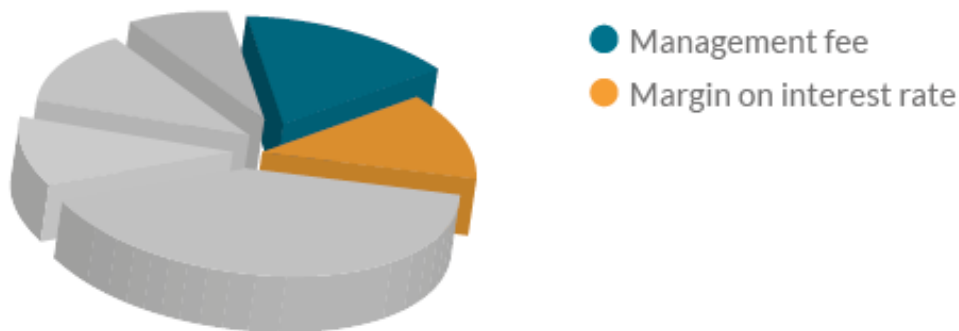
The interest margin is one of the least visible, yet most lucrative, revenue streams for leasing providers.

What It Is:

- The profit added to the base interest rate used to calculate lease rentals
- Embedded into monthly payments, based on capital cost and residual value

Where the Risk Lies:

- New contracts can attract new margins without client knowledge
- Lack of transparency means clients rarely verify applied rates
- The impact is magnified across large or long-term fleets



Risks:

- Assuming a low headline rate includes a low margin
- Not requesting or auditing the base cost of funds
- Accepting blended or averaged rates without breakdown

Interventions:

- Fix the margin at the start of the contract and make it auditable
- Validate the base rate (e.g. using SONIA or another recognised benchmark)
- Conduct forensic audits to ensure suppliers apply agreed terms

An almost invisible menace

Even a small change in interest margin can have a big impact on cost, especially when it goes unnoticed.

If you can't measure the margin on money, you can't control the cost of your fleet.

#3 Network Rebates

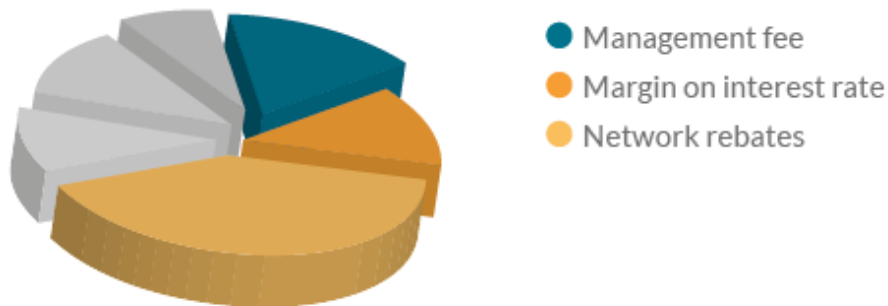
While many leasing providers offer fixed-cost maintenance and repair packages, what's less visible is how these services generate rebates that are rarely passed on to the client.

What They Are:

- Discounts and incentives negotiated between the lessor and service providers
- Applied to areas like maintenance, tyres, glass, repairs, storage, and movement

The Issue:

- These rebates often create a surplus between what's budgeted and what's actually spent
- Unless specifically addressed in the contract, that surplus is usually retained by the supplier



Risks:

- Clients are charged based on conservative maintenance budgets
- Rebates on the backend inflate supplier margin
- Even when there's a surplus share, the true net cost may be obscured

Interventions:

- Is the budgeted spend calculated on pre-rebate or post-rebate values?
- Is there a defined mechanism for sharing any surplus?
- Are these costs tracked by vehicle or pooled across the fleet?

Keep your savings close

If you don't see the rebate, you're probably funding someone else's margin.

It's not just about who does the work, it's about who profits from the work being done.

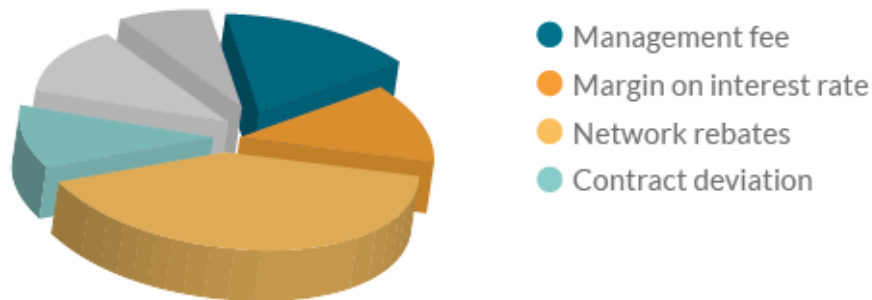
#4 Contract Deviation

#4.1 Contract Adjustments

This is triggered when the vehicle is running outside its pre-set mileage/term parameters, typically by more than 10% - 20%.

Unless pre-defined, the lessor will revisit the RV and either force through or propose a contract amendment with fresh pricing. Information from some lessors indicate that 50% of their contracts deviate by 15% or more.

Fleetworx actual client data suggests a figure nearer 80% of contracts deviate by more than 15% from contract parameters.



Risks:

- Most fleets evolve during the contract term, and deviations are common
- Without clear rules, suppliers can reprice based on internal models, not market conditions

Interventions:

- Define allowed variance levels clearly in the contract
- Require supplier to document pricing methodology for resets
- Ensure changes are auditable, with any uplift tied to market data

When a vehicle strays from contract parameters, pricing can be recalculated, often in the supplier's favour.

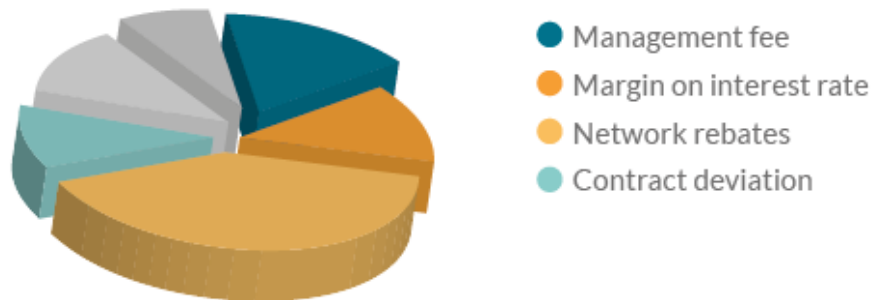
#4 Contract Deviation

#4.2 Excess Mileage

Where a contract adjustment is not enforced, contract deviation is managed through an excess mileage programme.

These differ widely from supplier to supplier and country to country.

Typically an amount is charged upon contract end for any miles/km driven in excess of the contract.



Risks:

- Excess mileage charges can be inflated and vary across suppliers
- Clients often miss whether the rate is consistent, or if credits for under-mileage are fairly applied

Interventions:

- Is the excess mileage rate set by vehicle or averaged across fleet?
- Are under-mileage credits offered — and at what rate?
- Are mileage variances pooled across vehicles or managed individually?
- Ensure excess mileage rates are benchmarked and contractually fixed
- Clarify treatment of under-usage and establish a transparent pooling mechanism
- Watch out for caps or caveats that limit the return on under-mileage

The price per extra mile isn't always the same, and it's rarely in the client's favour.

#4 Contract Deviation

#4.3 Early Termination

What It Means:

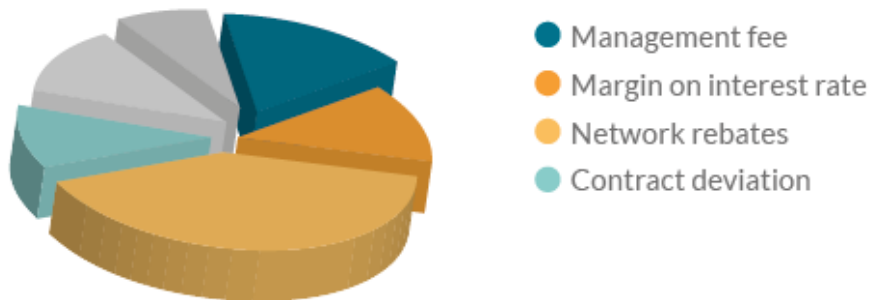
- Terminating a lease early often leads to additional charges
- The supplier may apply penalties or recalculate remaining costs to protect margin

Risks:

- Without a clear formula, clients can be hit with opaque and excessive fees
- High termination charges can lock you into contracts that no longer fit

Interventions:

- Negotiate a clear, equitable formula in the master agreement
- Build in flexibility for business needs without punitive financial consequences
- Model termination scenarios before signing



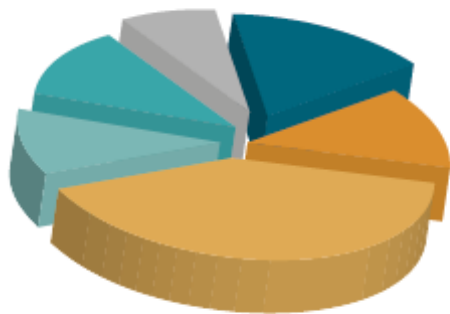
Ending a lease early can trigger costs far beyond what's fair, unless defined in advance.

#5 Gain On Sale

When a leased vehicle is returned and sold for more than its assumed residual value (RV), that surplus - the gain on sale - can be substantial.

What It Means:

- Leasing companies set RVs when contracts are signed, which influence monthly rentals
- If the actual sale price at de-fleet is higher than the RV, a profit is made



- Management fee
- Margin on interest rate
- Network rebates
- Contract deviation
- Gain on sale

Risks:

- Suppliers may set conservative RV's resulting in higher rentals for the client than are necessary
- Then, when vehicles outperform, they retain the gain, even though the client funded the risk
- Sale costs deducted from proceeds are often inflated or unverified

Interventions:

- Negotiate a transparent gain-share mechanism with clearly defined inputs
- Require the lessor to disclose resale values and deductions in writing
- Ensure the resale process is auditable and aligned with fair market practices

You fund the depreciation, so you should benefit when vehicles outperform expectations.

#6 Maintenance Spend

Maintenance budgets are often presented as risk-mitigation tools — designed to cover worst-case scenarios. But for suppliers, they also represent a key opportunity to build hidden margin.

What It Means:

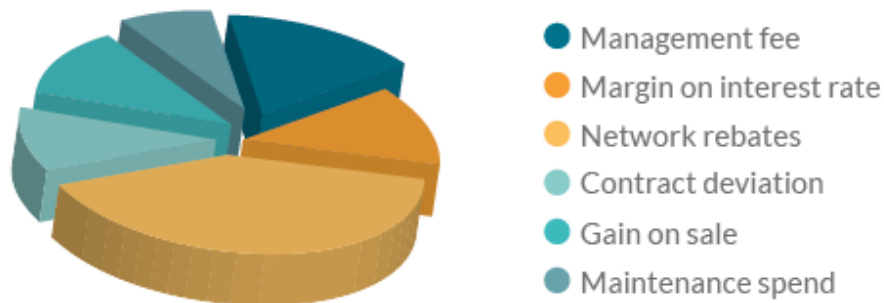
- Maintenance costs are usually agreed at the start of the lease
- These are based on assumptions around mileage, usage, and wear
- Suppliers often build in extra margin to cover “potential” issues

Risks:

- Overestimating maintenance needs leads to consistent surpluses
- Without visibility, those surpluses are retained by the supplier
- Conservative budgets mask the true cost of service delivery

Interventions:

- Benchmark supplier budgets against real-world historical spend
- Build in profit-sharing mechanisms for surplus maintenance reserves
- Require transparent reporting on claims, costs, and unused budget



In a well-managed fleet, maintenance should not be a profit centre for your supplier.

In Summary

Fleet leasing contracts are complex, layered, and designed to accommodate risk, but too often, they're designed to benefit the supplier more than the client.

At face value, the terms may seem transparent: a management fee, a monthly rental, a set of fixed services. But beneath the surface, leasing providers operate sophisticated models that extract margin across multiple points in the contract lifecycle.

Key Takeaways for Procurement Leaders:

- Headline prices and volume discounts rarely reflect total cost
- Snapshot pricing is useful for comparison — not cost forecasting
- Six major margin levers drive most supplier profit:
 - Management fee
 - Interest margin
 - Network rebates
 - Contract deviations
 - Gain on sale
 - Maintenance spend
- Without active management, these levers erode value throughout the contract term

What makes The Difference.

Procurement teams that succeed in controlling total fleet cost do so by:

- Auditing supplier assumptions
- Building transparency into every commercial touchpoint
- Using data-led oversight to monitor costs in real time
- Creating supplier relationships built on accountability and performance, not blind trust

Why Fleetworx?

Fleetworx exists to help organisations manage fleet contracts from the client side - with total independence from suppliers, manufacturers, and lessors.

We bring:

- Deep expertise in supply chain costing
- Proven frameworks to expose hidden margin
- Tools to track and reduce Total Cost of Ownership (TCO)

Impartiality that drives value, not volume

To learn more about how Fleetworx can help you manage your company car fleet supply chain, please contact Graham Rees.

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